

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Three Oaks	County Berrien
Audit Date 2/29/04	Opinion Date 2/19/05	Date Accountant Report Submitted to State: 1/30/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

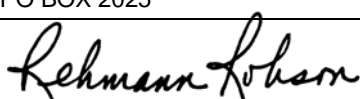
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 		Date 1/30/06	

# **Village of Three Oaks**

**Berrien County, Michigan**

## **FINANCIAL STATEMENTS**

**For the Year Ended  
February 29, 2004**



**REHMANN ROBSON**

*Certified Public Accountants*

**VILLAGE OF THREE OAKS, MICHIGAN**  
**For the Fiscal Year Ended February 29, 2004**

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



## **INDEPENDENT AUDITORS' REPORT**

December 19, 2005

Members of the Village Council  
Village of Three Oaks  
Three Oaks, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Three Oaks, Michigan***, as of and for the year ended February 29, 2004, which collectively comprise the Village's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of the Village of Three Oaks, Michigan, as of February 29, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparisons for the general fund, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note IV.C. to the basic financial statements, in 2004 the Village changed accounting policies related to the new financial reporting requirements for all state and local governments, by adopting Statements of Governmental Accounting Standards (GASB Statements) No. 34 – Basic Financial Statements – and Management's Discussion and Analysis– for State and Local Governments, No. 37 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, and No. 38 – Certain Financial Statement Note Disclosures. This results in a change to the format and content of the basic financial statements.

The Village has elected not to present Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collective comprise the Village's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Village of Three Oaks. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The script is cursive and fluid, with the first name "Lehmann" and last name "Johnson" clearly distinguishable.

## BASIC FINANCIAL STATEMENTS

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

# VILLAGE OF THREE OAKS, MICHIGAN

## Statement of Net Assets

February 29, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 280,077	\$ 392,837	\$ 672,914	\$ 4,139
Receivables	170,124	72,828	242,952	156,380
Internal balances	21,547	(21,547)	-	-
Other assets	41,378	4,534	45,912	-
Capital assets not being depreciated	-	54,517	54,517	-
Capital assets being depreciated, net	484,143	6,604,586	7,088,729	-
 Total assets	 997,269	 7,107,755	 8,105,024	 160,519
<b>Liabilities</b>				
Accounts payable and accrued expenses	42,040	53,282	95,322	88,595
Long-term liabilities:				
Due within one year	18,906	122,000	140,906	20,000
Due in more than one year	19,709	3,900,964	3,920,673	40,000
 Total liabilities	 80,655	 4,076,246	 4,156,901	 148,595
<b>Net Assets</b>				
Invested in capital assets, net of related debt	445,528	2,636,139	3,081,667	-
Restricted for:				
Streets and highways	51,193	-	51,193	-
Unrestricted	419,893	395,370	815,263	11,924
 <b>Total net assets</b>	 <u>\$ 916,614</u>	 <u>\$ 3,031,509</u>	 <u>\$ 3,948,123</u>	 <u>\$ 11,924</u>

The accompanying notes are an integral part of these financial statements.



**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended February 29, 2004**

<b>Functions / Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Primary government</b>					
Governmental activities:					
Legislative	\$ 9,300	\$ -	\$ -	\$ -	\$ (9,300)
General government	158,882	-	-	-	(158,882)
Public safety	279,171	59,494	-	-	(219,677)
Public works	356,312	79,080	164,631	1,373	(111,228)
Planning and economic development	10,786	-	-	-	(10,786)
Parks and recreation	35,362	26,572	-	-	(8,790)
Interest on long-term debt	2,059	-	-	-	(2,059)
Total governmental activities	<u>851,872</u>	<u>165,146</u>	<u>164,631</u>	<u>1,373</u>	<u>(520,722)</u>
Business-type activities:					
Sewer	638,341	367,521	1,599	-	(269,221)
Water	320,084	217,370	4,802	-	(97,912)
Total business-type activities	<u>958,425</u>	<u>584,891</u>	<u>6,401</u>	<u>-</u>	<u>(367,133)</u>
Total primary government	<u>\$ 1,810,297</u>	<u>\$ 750,037</u>	<u>\$ 171,032</u>	<u>\$ 1,373</u>	<u>\$ (887,855)</u>
<b>Component unit</b>					
Downtown Development Authority	<u>\$ 297,735</u>	<u>\$ -</u>	<u>\$ 283,120</u>	<u>\$ -</u>	<u>\$ (14,615)</u>

continued...

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Activities (Concluded)**  
**For the Year Ended February 29, 2004**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (520,722)	\$ (367,133)	\$ (887,855)	\$ (14,615)
General revenues:				
Property taxes	367,699	-	367,699	57,017
State-shared revenues	205,991	-	205,991	-
Grants and contributions not restricted to particular programs	110,224	-	110,224	-
Unrestricted interest income	3,652	-	3,652	-
Transfers - internal activities	(69,518)	69,518	-	-
Total general revenues and transfers	618,048	69,518	687,566	57,017
Change in net assets	97,326	(297,615)	(200,289)	42,402
Net assets, (deficit) beginning of year, as rest	819,288	3,329,124	4,148,412	(30,478)
<b>Net assets, end of year</b>	<u>\$ 916,614</u>	<u>\$ 3,031,509</u>	<u>\$ 3,948,123</u>	<u>\$ 11,924</u>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

# VILLAGE OF THREE OAKS, MICHIGAN

## Balance Sheet

### Governmental Funds

February 29, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 242,399	\$ 37,678	\$ 280,077
Taxes receivable	4,030	-	4,030
Accounts receivable	465	-	465
Due from other governments	62,748	23,097	85,845
Due from other funds	31,129	-	31,129
Due from component unit	79,784	-	79,784
Prepaid items	41,378	-	41,378
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 461,933</u>	<u>\$ 60,775</u>	<u>\$ 522,708</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 41,288	\$ -	\$ 41,288
Due to other funds	-	9,582	9,582
	<hr/>	<hr/>	<hr/>
Total liabilities	41,288	9,582	50,870
	<hr/>	<hr/>	<hr/>
<b>Fund balances</b>			
Reserved for:			
Prepaid items	41,378	-	41,378
Unreserved:			
Undesignated	379,267	-	379,267
Undesignated, reported in nonmajor special revenue funds	-	51,193	51,193
	<hr/>	<hr/>	<hr/>
Total fund balances	420,645	51,193	471,838
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$ 461,933</u>	<u>\$ 60,775</u>	<u>\$ 522,708</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**February 29, 2004**

Fund balances - total governmental funds	\$ 471,838
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets being depreciated	1,096,445
Deduct - accumulated depreciation	(612,302)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(38,615)
Deduct - accrued interest on bonds payable	<u>(752)</u>

Net assets of governmental activities	<u><u>\$ 916,614</u></u>
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The accompanying notes are an integral part of these financial statements.

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended February 29, 2004**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Property taxes	\$ 367,699	\$ -	\$ 367,699
Special assessments	1,373	-	1,373
Licenses and permits	105,420	-	105,420
Intergovernmental	252,928	117,395	370,323
Police charges	44,391	-	44,391
Parks revenue	26,572	-	26,572
Interest revenue	3,652	299	3,951
Other revenues	98,987	-	98,987
	<u>901,022</u>	<u>117,694</u>	<u>1,018,716</u>
Total revenues			
<b>Expenditures</b>			
Current:			
Legislative	9,300	-	9,300
General government	150,602	-	150,602
Public safety	269,988	-	269,988
Public works	222,484	112,714	335,198
Planning and economic development	5,953	-	5,953
Parks and recreation	23,010	-	23,010
Debt service:			
Principal	18,135	-	18,135
Interest and fiscal charges	2,412	-	2,412
Capital outlay	74,072	-	74,072
	<u>775,956</u>	<u>112,714</u>	<u>888,670</u>
Total expenditures			
Revenues over (under) expenditures	<u>125,066</u>	<u>4,980</u>	<u>130,046</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	22,142	22,142
Transfers out	(85,792)	(5,868)	(91,660)
Total other financing sources (uses)	<u>(85,792)</u>	<u>16,274</u>	<u>(69,518)</u>
Net changes in fund balances	39,274	21,254	60,528
Fund balances, beginning of year	<u>381,371</u>	<u>29,939</u>	<u>411,310</u>
<b>Fund balances, end of year</b>	<u><u>\$ 420,645</u></u>	<u><u>\$ 51,193</u></u>	<u><u>\$ 471,838</u></u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended February 29, 2004**

Net change in fund balances - total governmental funds	\$ 60,528
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	72,536
Deduct - depreciation expense	(54,226)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	18,135
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	353
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Change in net assets of governmental activities	\$ 97,326
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The accompanying notes are an integral part of these financial statements.

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended February 29, 2004**

	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>			
Property taxes	\$ 403,500	\$ 367,699	\$ (35,801)
Special assessments	-	1,373	1,373
Licenses and permits	79,100	105,420	26,320
Intergovernmental	223,700	252,928	29,228
Police charges	40,350	44,391	4,041
Parks revenue	750	26,572	25,822
Interest revenue	6,300	3,652	(2,648)
Other revenues	69,500	98,987	29,487
	<hr/>	<hr/>	<hr/>
Total revenues	823,200	901,022	77,822
	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>			
Legislative	9,300	9,300	-
	<hr/>	<hr/>	<hr/>
General government:			
Clerk	26,000	24,840	(1,160)
Elections	500	1,257	757
Treasurer	7,500	8,190	690
Other	133,050	116,315	(16,735)
	<hr/>	<hr/>	<hr/>
Total general government	167,050	150,602	(16,448)
	<hr/>	<hr/>	<hr/>
Public safety:			
Police	188,500	208,173	19,673
Fire	37,000	45,244	8,244
Building Inspection	13,500	16,571	3,071
	<hr/>	<hr/>	<hr/>
Total public safety	239,000	269,988	30,988
	<hr/>	<hr/>	<hr/>
Public works:			
Streets	256,200	146,544	(109,656)
Sanitation	-	75,940	75,940
	<hr/>	<hr/>	<hr/>
Total public works	256,200	222,484	(33,716)
	<hr/>	<hr/>	<hr/>

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**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual (Concluded)**  
**General Fund**  
**For the Year Ended February 29, 2004**

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Expenditures (Concluded)</b>			
Planning and economic development:			
Planning	\$ 15,000	\$ 2,508	\$ (12,492)
Economic development	9,500	3,445	(6,055)
Total planning and economic development	<u>24,500</u>	<u>5,953</u>	<u>(18,547)</u>
 Parks and recreation	 <u>20,500</u>	 <u>23,010</u>	 <u>2,510</u>
 Debt service:			
Principal	-	18,135	18,135
Interest and fiscal charges	<u>-</u>	<u>2,412</u>	<u>2,412</u>
Total debt service	<u>-</u>	<u>20,547</u>	<u>20,547</u>
 Capital outlay	 <u>32,600</u>	 <u>74,072</u>	 <u>41,472</u>
 Total expenditures	 <u>749,150</u>	 <u>775,956</u>	 <u>26,806</u>
 Revenues over expenditures	 74,050	 125,066	 51,016
 <b>Other financing sources (uses)</b>			
Transfers out	<u>(20,000)</u>	<u>(85,792)</u>	<u>(65,792)</u>
 Net changes in fund balance	 54,050	 39,274	 (14,776)
 Fund balance, beginning of year, as restated	 <u>381,371</u>	 <u>381,371</u>	 <u>-</u>
 <b>Fund balance, end of year</b>	 <u><u>\$ 435,421</u></u>	 <u><u>\$ 420,645</u></u>	 <u><u>\$ (14,776)</u></u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**February 29, 2004**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 142,252	\$ 250,585	\$ 392,837
Accounts receivable	44,265	28,423	72,688
Accrued interest receivable	-	140	140
Due from other funds	-	908	908
Inventory, at cost	3,255	1,279	4,534
Total current assets	<u>189,772</u>	<u>281,335</u>	<u>471,107</u>
Noncurrent assets:			
Capital assets not being depreciated	30,017	24,500	54,517
Capital assets being depreciated, net	<u>5,755,271</u>	<u>849,315</u>	<u>6,604,586</u>
Total noncurrent assets	<u>5,785,288</u>	<u>873,815</u>	<u>6,659,103</u>
Total assets	<u>5,975,060</u>	<u>1,155,150</u>	<u>7,130,210</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	754	5,348	6,102
Due to other funds	11,533	10,922	22,455
Accrued interest payable	38,558	8,622	47,180
Current portion of long-term debt	<u>97,000</u>	<u>25,000</u>	<u>122,000</u>
Total current liabilities	<u>147,845</u>	<u>49,892</u>	<u>197,737</u>
Long-term debt, net of current portion	<u>3,100,964</u>	<u>800,000</u>	<u>3,900,964</u>
Total liabilities	<u>3,248,809</u>	<u>849,892</u>	<u>4,098,701</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,587,324	48,815	2,636,139
Unrestricted	<u>138,927</u>	<u>256,443</u>	<u>395,370</u>
Total net assets	<u>\$ 2,726,251</u>	<u>\$ 305,258</u>	<u>\$ 3,031,509</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended February 29, 2004**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services	\$ 367,521	\$ 217,370	\$ 584,891
<b>Operating expenses</b>			
Operation and maintenance	354,353	224,274	578,627
Depreciation	182,425	43,893	226,318
Total operating expenses	536,778	268,167	804,945
Operating income (loss)	(169,257)	(50,797)	(220,054)
<b>Non-operating revenues (expenses)</b>			
Investment income	1,599	4,126	5,725
Interest expense	(101,563)	(51,917)	(153,480)
Other non-operating revenue	-	676	676
Total non-operating revenues (expenses)	(99,964)	(47,115)	(147,079)
Income (loss) before transfers	(269,221)	(97,912)	(367,133)
<b>Transfers in</b>	69,518	-	69,518
Change in net assets	(199,703)	(97,912)	(297,615)
Net assets, beginning of year, as restated	2,925,954	403,170	3,329,124
<b>Net assets, end of year</b>	<u>\$ 2,726,251</u>	<u>\$ 305,258</u>	<u>\$ 3,031,509</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended February 29, 2004**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 367,137	\$ 222,609	\$ 589,746
Cash payments to employees	(28,535)	(74,673)	(103,208)
Cash payments to suppliers for goods and services	(333,482)	(133,888)	(467,370)
Net cash provided (used) by operating activities	5,120	14,048	19,168
<b>Cash flows from non-capital financing activities</b>			
Transfers in from other funds	69,518	-	69,518
Other receipts	-	676	676
Net cash provided by non-capital financing activities	69,518	676	70,194
<b>Cash flows from capital and related financing activities</b>			
Purchase of capital assets	(28,550)	-	(28,550)
Proceeds from issuance of long-term debt	73,549	-	73,549
Bond principal payments	(96,000)	(20,000)	(116,000)
Bond interest payments	(101,563)	(51,917)	(153,480)
Net cash (used) by capital and related financing activities	(152,564)	(71,917)	(224,481)
<b>Cash flows from investing activities</b>			
Investment income	1,599	4,126	5,725
Net increase (decrease) in cash and cash equivalents	(76,327)	(53,067)	(129,394)
Cash and cash equivalents, beginning of year	218,579	303,652	522,231
<b>Cash and cash equivalents, end of year</b>	<b>\$ 142,252</b>	<b>\$ 250,585</b>	<b>\$ 392,837</b>

continued...

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For the Year Ended February 29, 2004**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ (169,257)	\$ (50,797)	\$ (220,054)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	182,425	43,893	226,318
Changes in assets and liabilities:			
Accounts receivable	(384)	408	24
Accrued interest receivable	-	568	568
Due from other funds	-	4,263	4,263
Inventory, at cost	610	13,413	14,023
Accounts payable	(84)	2,506	2,422
Accrued liabilities	(1,134)	(1,463)	(2,597)
Due to other funds	(6,006)	1,437	(4,569)
Accrued interest payable	(1,050)	(180)	(1,230)
<b>Net cash provided (used) by operating activities</b>	<u>\$ 5,120</u>	<u>\$ 14,048</u>	<u>\$ 19,168</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**February 29, 2004**

	<b>Agency Funds</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,012
Account receivable	252
	<hr/>
Total assets	\$ 2,264
	<hr/>
<b>Liabilities</b>	
Accounts payable	\$ 1,799
Due to other governments	465
	<hr/>
Total liabilities	\$ 2,264
	<hr/>

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# VILLAGE OF THREE OAKS

## Index

### Notes to the Financial Statements

For the Year Ended February 29, 2004

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# VILLAGE OF THREE OAKS

## Notes To Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, *The Financial Reporting Entity*, these financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government. The discretely presented component unit has a February 29 year end.

**Discretely Presented Component Unit (Downtown Development Authority)** - The Downtown Development Authority was created as a tax-increment financing district to correct and prevent deterioration in the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The Authority is governed by a five member board, selected by the Village Council. Furthermore, the Authority's budget is subject to approval by the Village Council.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

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### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Agency funds also use the accrual basis of accounting but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Intergovernmental revenues are accrued when earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The *general fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Village reports the following major proprietary funds:

The *sewer fund* accounts for the activities of the Village's sewer system.

The *water fund* accounts for the activities of the Village's water distribution and treatment system.

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, liabilities and equity**

#### **1. *Deposits and investments***

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The Village's investment policy allows for all of these types of investments.

#### **2. *Interfund receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

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### 3. *Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### 4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items constructed or acquired after 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	30-40
Buildings and improvements	15-40
Furniture and Equipment	5-15
Vehicles	5-10
Water and Sewer Systems	20-50

### 5. *Compensated absences*

Village employees are not permitted to accumulate sick or vacation days to be carried over from year to year. Accordingly, no liability for compensated absences is recorded in these financial statements.

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

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### 6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### 7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. There were no designations at year end.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. **Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund and function. The legal level of budgetary control is the functional level. Transfers of appropriations between functions require the approval of the Village Council. There were no amendments made to the budget during the current fiscal year.

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

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### B. Excess of expenditures over appropriations

For the year ended February 29, 2004, expenditures exceeded appropriations as follows:

	<b>Original/ Final Budget</b>	<b>Actual</b>	<b>Over Budget</b>
Public safety	\$ 239,000	\$ 269,988	\$ 30,988
Parks and recreation	20,500	23,010	2,510
Debt service	-	20,547	20,547
Capital outlay	32,600	74,072	41,472
Transfers out	20,000	85,792	65,792

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

Following is a reconciliation of deposit and investment balances as of February 29, 2004:

##### Statement of Net Assets

Cash and cash equivalents:

Governmental activities	\$ 280,077
Business-type activities	392,837
Component unit	4,139

##### Statement of Fiduciary Net Assets

Cash and cash equivalents:

Agency funds	<u>2,012</u>
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##### Total

\$ 679,065

##### Deposits and investments

Bank deposits:

Checking/savings accounts	\$ 605,656
Certificates of deposit (due within one year)	73,209
Cash on hand	<u>200</u>

##### Total

\$ 679,065

##### *Deposit and investment risk*

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All of the Village's deposits with fixed maturity dates (certificates of deposit) were due within one year.

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

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*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. At year end, the Village had no investments, and was therefore not exposed to credit risk.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, \$384,204 of the Village's bank balance of \$687,078 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year end, the Village had no investments, and was therefore not exposed to concentration risk.

### B. Receivables

Receivables as of year end are comprised of the following:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Component Unit</b>
Taxes receivable	\$ 4,030	\$ -	\$ 43,435
Accounts receivable	465	72,688	-
Due from other governments	85,845	-	112,945
Interest receivable	-	140	-
Due from component unit	<u>79,784</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 170,124</u></b>	<b><u>\$ 72,828</u></b>	<b><u>\$ 156,380</u></b>

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

### C. Capital assets

Capital assets activity for the year ended February 29, 2004 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
<b>Governmental activities</b>				
Capital assets, being depreciated:				
Land improvements	\$ 47,086	\$ -	\$ -	\$ 47,086
Buildings and improvements	349,367	47,894	-	397,261
Furniture and equipment	478,955	24,642	(10,785)	492,812
Vehicles	159,286	-	-	159,286
Total capital assets being depreciated	1,034,694	72,536	(10,785)	1,096,445
Less accumulated depreciation for:				
Land improvements	(4,230)	(1,233)	-	(5,463)
Buildings and improvements	(83,296)	(16,951)	-	(100,247)
Furniture and equipment	(344,609)	(27,385)	10,785	(361,209)
Vehicles	(136,726)	(8,657)	-	(145,383)
Total accumulated depreciation	(568,861)	(54,226)	10,785	(612,302)
Total capital assets being depreciated, net	465,833	18,310	-	484,143
<b>Capital assets, net</b>	<b>\$ 465,833</b>	<b>\$ 18,310</b>	<b>\$ -</b>	<b>\$ 484,143</b>
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 54,517	\$ -	\$ -	\$ 54,517
Capital assets, being depreciated:				
Equipment	176,696	28,550	-	205,246
Infrastructure	8,525,349	-	-	8,525,349
Total capital assets being depreciated	8,702,045	28,550	-	8,730,595
Less accumulated depreciation for:				
Equipment	(115,543)	(16,028)	-	(131,571)
Infrastructure	(1,784,148)	(210,290)	-	(1,994,438)
Total accumulated depreciation	(1,899,691)	(226,318)	-	(2,126,009)
Total capital assets being depreciated, net	6,802,354	(197,768)	-	6,604,586
<b>Capital assets, net</b>	<b>\$ 6,856,871</b>	<b>\$ (197,768)</b>	<b>\$ -</b>	<b>\$ 6,659,103</b>



# VILLAGE OF THREE OAKS

## Notes To Financial Statements

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Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General government	\$	6,744
Public safety		9,183
Public works		21,114
Economic development		4,833
Parks		<u>12,352</u>

**Total depreciation expense –  
governmental activities**

**\$ 54,226**

**Business-type Activities:**

Sewer	\$	182,425
Water		<u>43,893</u>

**Total depreciation expense –  
business-type activities**

**\$ 226,318**

**D. Accounts payable and accrued liabilities**

Payables as of year end are comprised of the following:

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b><u>Component Unit</u></b>
Accounts payable	\$ 41,288	\$ 6,102	\$ -
Due to other governments	-	-	6,671
Accrued interest payable	752	47,180	2,140
Due to primary government	<u>-</u>	<u>-</u>	<u>79,784</u>
<b>Total</b>	<b><u>\$ 42,040</u></b>	<b><u>\$ 53,282</u></b>	<b><u>\$ 88,595</u></b>

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

### E. Interfund receivables, payables and transfers

The composition of interfund balances as of February 29, 2004, is as follows:

	Due From			
	Nonmajor Governmental	Sewer	Water	Total
Due to:				
General Fund	\$ 9,582	\$ 10,625	\$ 10,922	\$ 31,129
Water	-	908	-	908
	\$ 9,582	\$ 11,533	\$ 10,922	\$ 32,037

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended February 29, 2004, interfund transfers consisted of the following:

	Transfer From		
	General Fund	Nonmajor Governmental	Total
Transfer to:			
Nonmajor governmental	\$ 16,274	\$ 5,868	\$ 22,142
Sewer	69,518	-	69,518
	\$ 85,792	\$ 5,868	\$ 91,660

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### F. Long-term debt

Long-term debt at February 29, 2004, is comprised of the following.

#### Governmental activities

2003 International Model 7400 Dump Truck installment purchase contract, due in annual installments of \$20,547, including interest at 4.25%, through 2006.

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
<b>Governmental activities</b>					
2003 International Model 7400 Dump Truck installment purchase contract	\$ 56,750	\$ -	\$ 18,135	\$ 38,615	\$ 18,906

The annual requirements to service governmental activities obligations, as of February 29, 2004, are as follows:

Year Ended February 28	Governmental Activities		
	Principal	Interest	Total
2005	\$ 18,906	\$ 1,641	\$ 20,547
2006	19,709	838	20,547
	<b>\$ 38,615</b>	<b>\$ 2,479</b>	<b>\$ 41,094</b>

### Business-type activities

2001 Sanitary Sewer Clean Water Program Loan (through the Michigan Municipal Bond Authority), maturing serially through 2023 in annual amounts ranging from \$85,000-\$135,000, plus interest at 2.5%.

2001 Sanitary Sewer System Revenue Bonds, maturing serially through 2042 in annual amounts ranging from \$12,000-\$63,000, plus interest at 4.5%.

1978 Water Supply System Revenue Bonds, maturing serially through 2016 in annual amounts of \$15,000, plus interest at 5.0%.

1992 Water Treatment Plant, maturing serially through 2032 in annual amounts ranging from \$10,000-\$50,000, plus interest at 6.625%.

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
<b>Business-type activities</b>					
2001 Sanitary Sewer Clean Water Program Loan	\$ 2,155,000	\$ -	\$ 85,000	\$ 2,070,000	\$ 85,000
2001 Sanitary Sewer System Revenue Bonds	1,144,000	-	11,000	1,133,000	12,000
1978 Water Supply System Revenue Bonds	195,000	-	15,000	180,000	15,000
1992 Water Treatment Plant	650,000	-	5,000	645,000	10,000
	4,144,000	-	116,000	4,028,000	122,000
Less: amount available to draw	(78,585)	73,549	-	(5,036)	-
Total business-type activities	<b>\$ 4,065,415</b>	<b>\$ 73,549</b>	<b>\$ 116,000</b>	<b>\$ 4,022,964</b>	<b>\$ 122,000</b>

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

The annual requirements to service business-type activities debt obligations as of February 29, 2004, are as follows:

Year Ended February 28	Business-Type Activities		
	Principal	Interest	Total
2005	\$ 122,000	\$ 152,428	\$ 274,428
2006	127,000	148,288	275,288
2007	128,000	144,063	272,063
2008	133,000	139,753	272,753
2009	134,000	135,358	269,358
2010-2014	735,000	606,304	1,341,304
2015-2019	800,000	476,750	1,276,750
2020-2024	770,000	339,159	1,109,159
2025-2029	330,000	231,777	561,777
2030-2034	333,000	130,321	463,321
2035-2039	241,000	67,478	308,478
2040-2042	175,000	12,173	187,173
	<b>\$ 4,028,000</b>	<b>\$ 2,583,849</b>	<b>\$ 5,652,878</b>

### Component unit

Street Beautification Project limited tax general obligation bonds, maturing serially through 2007 in annual amounts of \$20,000, plus interest ranging from 7.10% - 7.15%.

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
<b>Component Unit</b>					
Street Beautification Project LTGO Bonds	\$ 80,000	\$ -	\$ 20,000	\$ 60,000	\$ 20,000

The annual requirements to service component unit debt obligations as of February 29, 2004, are as follows:

Year Ended February 28	Component Unit		
	Principal	Interest	Total
2005	\$ 20,000	\$ 4,280	\$ 24,280
2006	20,000	2,860	22,860
2007	20,000	1,430	21,430
	<b>\$ 60,000</b>	<b>\$ 8,570</b>	<b>\$ 68,570</b>

# **VILLAGE OF THREE OAKS**

## **Notes To Financial Statements**

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### **G. Segment information-enterprise funds**

The government issued revenue bonds to finance certain improvements to its water and sewer systems. Because the Sewer Fund and the Water Fund are each reported as major funds in the fund financial statements and account entirely for a specific segment, disclosures are not required herein.

## **IV. OTHER INFORMATION**

### **A. Risk management**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 29, 2004, the Village carried commercial insurance to cover all risks of losses. The Village has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

### **B. Property taxes**

Village property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available. The Village bills and collects its own property taxes. Property taxes attach as an enforceable lien on property as of December 31. Village taxes are levied the following July 1 and are payable without penalty through September 15, at which time uncollected real property taxes are turned over to the County for reimbursement from their revolving tax fund. The Village continues to collect delinquent personal property taxes.

The State taxable value of all real and personal property on which Village tax levies were based for the year ended February 29, 2004, was \$28,256,417 and the millage rate was 13.8959 mills for general operations.

### **C. State Construction Code Act Compliance**

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees which bear a reasonable relationship to the cost of operating their building departments. The Village's fee structure is not intended to fully recover its costs, and accordingly, the operations of the Village's building department are accounted for in the General Fund.

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

For the year ended February 29, 2004, the Village's revenue and expenditures related to its building department were as follows:

<b>Revenue</b>		
Building permits	\$	7,889
Electrical permits		4,565
Mechanical permits		2,490
		<u>14,944</u>
	\$	<u>14,944</u>
<b>Expenditures</b>		
Building inspection	\$	16,571
		<u>16,571</u>

### D. Restatements

In connection with preparing these financial statements, management reviewed and corrected numerous asset and liability account balances as of February 28, 2003. As a result of this review, the following adjustments were made to beginning fund balance/net assets:

	Balance reported at 02/28/2003	Restatements	Balance reported at 03/01/2003
<b>Governmental activities</b>			
<i>Governmental funds:</i>			
General Fund	\$ 400,126	\$ (18,755)	\$ 381,371
Major Streets	13	(125)	(112)
Local Streets	30,183	(132)	30,051
	<u>\$ 430,322</u>	<u>\$ (19,012)</u>	<u>\$ 411,310</u>
<b>Business-type activities</b>			
<i>Enterprise funds:</i>			
Sewer	\$ 2,859,278	\$ 66,676	\$ 2,925,954
Water	445,563	(42,393)	403,170
	<u>\$ 3,304,841</u>	<u>\$ 24,283</u>	<u>\$ 3,329,124</u>
<b>Component unit</b>			
<i>Downtown Development Authority:</i>			
Debt service	\$ 415	\$ 2,850	\$ 3,265
Capital projects	449	48,658	49,107
	<u>\$ 74,998</u>	<u>\$ (105,476)</u>	<u>\$ (30,478)</u>

# VILLAGE OF THREE OAKS

## Notes To Financial Statements

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As of and for the year ended February 29, 2004, the Village implemented the following Governmental Accounting Standards Board pronouncements:

### Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Village was required to implement the new requirements no later than the fiscal year ending February 28, 2005.

The more significant of the changes required by the new standards include:

- Management’s discussion and analysis;
- Basic financial statements that include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
  - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;
  - Schedules to reconcile the fund financial statements to the government-wide financial statements;
  - Notes to the basic financial statements;

As a result of implementing these pronouncements for the fiscal year ended February 29, 2004, the beginning net assets of the enterprise funds were restated. They were derived by aggregating the previously reported retained earnings and contributed capital of those funds.

*Government-wide financial statements.* Beginning net assets for governmental activities was determined as follows:

Fund balance of governmental funds as of	
February 28, 2003, as restated	\$ 411,310
Add: governmental capital assets, net as of February 28, 2003	465,833
Deduct: governmental long-term debt as of February 28, 2003	(56,750)
Deduct: accrued interest on long-term debt as of February 28, 2003	<u>(1,105)</u>
<b>Governmental net assets, restated, as of March 1, 2003</b>	<b><u>\$ 819,288</u></b>

\* \* \* \* \*

## SUPPLEMENTARY INFORMATION



**VILLAGE OF THREE OAKS, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**February 29, 2004**

	<b>Special Revenue Funds</b>		<b>Total</b>
	<b>Major</b>	<b>Local</b>	<b>Nonmajor</b>
	<b>Street</b>	<b>Street</b>	<b>Governmental</b>
			<b>Funds</b>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 8,686	\$ 28,992	\$ 37,678
Due from other governments	16,412	6,685	23,097
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 25,098</u></b>	<b><u>\$ 35,677</u></b>	<b><u>\$ 60,775</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Due to other funds	\$ 5,552	\$ 4,030	\$ 9,582
<b>Fund Balances</b>			
Unreserved, undesignated	19,546	31,647	51,193
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 25,098</u></b>	<b><u>\$ 35,677</u></b>	<b><u>\$ 60,775</u></b>

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended February 29, 2004**

	<b>Special Revenue Funds</b>		<b>Total Nonmajor Governmental Funds</b>
	<b>Major Street</b>	<b>Local Street</b>	
<b>Revenues</b>			
Intergovernmental	\$ 81,514	\$ 35,881	\$ 117,395
Interest revenue	84	215	299
Total revenues	81,598	36,096	117,694
<b>Expenditures</b>			
Public works	56,072	56,642	112,714
Revenues over (under) expenditures	25,526	(20,546)	4,980
<b>Other financing sources (uses)</b>			
Transfers in	-	22,142	22,142
Transfers out	(5,868)	-	(5,868)
Total other financing sources (uses)	(5,868)	22,142	16,274
Net changes in fund balances	19,658	1,596	21,254
<b>Fund balances (deficit)</b>			
Beginning of year, as restated	(112)	30,051	29,939
<b>End of year</b>	<u>\$ 19,546</u>	<u>\$ 31,647</u>	<u>\$ 51,193</u>

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Combining Statement of Fiduciary Net Assets**  
**Agency Funds**  
**February 29, 2004**

	<u>Trust and Agency</u>	<u>Tax Collections</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,547	\$ 465	\$ 2,012
Accounts receivable	<u>252</u>	<u>-</u>	<u>252</u>
Total assets	<u><u>\$ 1,799</u></u>	<u><u>\$ 465</u></u>	<u><u>\$ 2,264</u></u>
<b>Liabilities</b>			
Accounts payable	\$ 1,799	\$ -	\$ 1,799
Undistributed receipts	<u>-</u>	<u>465</u>	<u>465</u>
Total liabilities	<u><u>\$ 1,799</u></u>	<u><u>\$ 465</u></u>	<u><u>\$ 2,264</u></u>

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Net Assets and**  
**Governmental Funds Balance Sheet**  
**Downtown Development Authority Component Unit**  
**February 29, 2004**

	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 421	\$ 3,718	\$ 4,139	\$ -	\$ 4,139
Taxes receivable	-	43,435	43,435	-	43,435
Due from other governments	-	112,945	112,945	-	112,945
<b>Total assets</b>	<u>\$ 421</u>	<u>\$ 160,098</u>	<u>\$ 160,519</u>	<u>-</u>	<u>160,519</u>
<b>Liabilities</b>					
Accrued interest payable	\$ -	\$ -	\$ -	\$ 2,140	\$ 2,140
Due to other governments	-	6,671	6,671	-	6,671
Due to primary government	-	79,784	79,784	-	79,784
Long-term liabilities:					
Due within one year	-	-	-	20,000	20,000
Due in more than one year	-	-	-	40,000	40,000
<b>Total liabilities</b>	-	86,455	86,455	62,140	148,595
<b>Fund balances</b>					
Unreserved, undesignated	421	73,643	74,064	(74,064)	-
<b>Total liabilities and fund balances</b>	<u>\$ 421</u>	<u>\$ 160,098</u>	<u>\$ 160,519</u>		
<b>Net assets, unrestricted</b>				<u>\$ 11,924</u>	<u>\$ 11,924</u>

**VILLAGE OF THREE OAKS, MICHIGAN**  
**Statement of Activities and**  
**Governmental Fund Revenues, Expenditures**  
**and Changes in Fund Balance**  
**Downtown Development Authority Component Unit**  
**For the Year Ended February 29, 2004**

	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Expenditures/expenses</b>					
Downtown development	\$ -	\$ 2,301	\$ 2,301	\$ 288,004	\$ 290,305
Debt service:					
Principal	20,000	-	20,000	(20,000)	-
Interest and fiscal charges	8,140	-	8,140	(710)	7,430
Capital outlay	-	288,004	288,004	(288,004)	-
	<u>28,140</u>	<u>290,305</u>	<u>318,445</u>	<u>(20,710)</u>	<u>297,735</u>
<b>General revenues</b>					
Property taxes	-	57,017	57,017	-	57,017
Intergovernmental	-	262,964	262,964	-	262,964
Donations	-	20,000	20,000	-	20,000
Investment earnings	6	150	156	-	156
	<u>6</u>	<u>340,131</u>	<u>340,137</u>	<u>-</u>	<u>340,137</u>
Excess of general revenues over (under) expenditures/expenses	<u>(28,134)</u>	<u>49,826</u>	<u>21,692</u>	<u>20,710</u>	<u>42,402</u>
<b>Other financing sources (uses)</b>					
Transfers in	25,290	-	25,290	-	25,290
Transfers out	-	(25,290)	(25,290)	-	(25,290)
	<u>25,290</u>	<u>(25,290)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	(2,844)	24,536	21,692	(21,692)	-
Change in net assets	-	-	-	42,402	42,402
<b>Fund balance/net assets (deficit)</b>					
Beginning of year, as restated	<u>3,265</u>	<u>49,107</u>	<u>52,372</u>	<u>(82,850)</u>	<u>(30,478)</u>
<b>End of year</b>	<u>\$ 421</u>	<u>\$ 73,643</u>	<u>\$ 74,064</u>	<u>\$ (62,140)</u>	<u>\$ 11,924</u>



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



December 19, 2005

Members of the Village Council  
Village of Three Oaks  
Three Oaks, Michigan

We have audited the financial statements of the Village of Three Oaks for the year ended February 29, 2004, and have issued our report thereon dated December 19, 2005. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated July 14, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village of Three Oaks. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Three Oaks are described in Note 1 to the financial statements. As described in Note IV.C. to the financial statements, in 2004 the Village changed accounting policies related to the new financial reporting requirements for all state and local governments, by adopting Statements of Governmental Accounting Standards (GASB Statements) No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis– for State and Local Governments*, No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38 – *Certain Financial Statement Note Disclosures*. The cumulative effect of implementing these new standards resulted in a substantial restatement of beginning net assets/fund balances.

Other than the prior period adjustments described in Note IV.C., we noted no transactions entered into by the Village of Three Oaks during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets in the government-wide and enterprise fund financial statements is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that it is reasonable in relation to the financial statements taken as a whole.

**Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Three Oaks's financial reporting process (that is, cause future financial statements to be materially misstated). As described in the accompanying memorandum, we proposed numerous material adjusting journal entries, which in our judgment, had a significant effect on the Village of Three Oaks's financial reporting process.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



# **Village of Three Oaks**

## **Comments and Recommendations**

### **For the Year Ended February 29, 2004**

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During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated December 19, 2005 on the financial statements of the Village of Three Oaks.

#### **Condition of Financial Records and Preparation for the Audit**

As the Board is well aware, this was a somewhat unusual audit. In the past two years, the Village has undergone significant changes in personnel and financial processes. Added to those changes was the fact that the Village's February 29, 2004 audit, which had been completed and submitted to the State, was determined to be invalid due to licensing problems with the Village's prior auditor. Accordingly, in mid-2005, we were engaged to perform an audit of the Village's records for both February 29, 2004 and February 28, 2005. These audits, which began in July 2005, required several months to complete, and were finalized in December 2005.

Through our initial conversations with the Village in arranging for these services, management indicated that it was aware that the Village's financial records had not been properly maintained in an auditable condition, and would likely require significant adjustments in connection with the annual audit. To this end, we provided management with a comprehensive list of schedules, workpapers, and similar supporting documentation required to facilitate an audit of the Village's records. After a significant delay in obtaining requested records from the Village's prior auditor, management worked diligently to provide as much of the information needed for the audit and to prepare as many of the required schedules as possible. When this process was complete, management requested that we assist in identifying and correcting the remaining issues.

Accordingly, we invested a significant amount of time reviewing the Village's unadjusted financial records, and proposing adjusting journal entries for management's review and approval. While we were very careful not to violate either of the two over-arching principles of independence for governmental audits (auditors should not make management decisions or audit their own work), we are nevertheless concerned by the extent of adjustments required both to the beginning balances as of March 1, 2003, and to the transactions made throughout the year ended February 29, 2004. Ideally, the Village's accounting systems and internal controls should be so designed as to allow management to properly maintain and reconcile its financially records internally, so that the annual audit is limited to simply testing and verifying the ending balances, not assisting in determining them.

Given the unusual timing of the 2004 and 2005 audits, we anticipate that some reduced amount of accounting assistance will be required in connection with the 2006 audit. Once that process is completed (something we would recommend the Village work to do rapidly) the Village will have a "clean starting point" as of February 28, 2006. We recommend that management then make maintaining the Village's books in a complete and accurate manner one of its top priorities for the new fiscal year. We would be pleased to provide any training, technical assistance, or interim financial reviews requested by the Village to ensure that the 2007 fiscal year and year-end audit run much more smoothly.

# **Village of Three Oaks**

## **Comments and Recommendations**

**For the Year Ended February 29, 2004**

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### **Accounting Software**

The Village currently uses “QuickBooks”, a small business accounting software package, to account for its financial operations. QuickBooks is not a governmental fund accounting package, and as such, is not well suited to the needs of governments. While it is technically possible to fully comply with governmental generally accepted accounting principles, state statutes, and other regulatory requirements using such a system, it requires a significant amount of manual intervention on the part of management to do so.

We recommend that management consider the possibility of upgrading its financial management system to a software package designed specifically for the governmental market. This would significantly enhance the Village’s ability to properly account for its operations and to comply with relevant regulations. We would be pleased to assist the Village in this process, if desired.

### **Accounting Policies and Procedures**

The Village does not currently have an up-to-date comprehensive set of accounting policies and procedures. In addition to being a well accepted “best practice” of local governments, certain policies are statutorily required by the State of Michigan. We recommend that the Village formally adopt and/or update policies related to cash receipts, disbursements, and depositories, investments, utility billings, payroll and personnel issues, capital assets, budgeting, and other important financial matters.

These policies should establish the required paper trail and evidence of approval (e.g., check request forms, deposit tickets, posting reports, etc.) for all key financial transactions. In addition to creating sound internal controls to safeguard the Village’s assets, these policies will also serve as a guide to management in the daily conduct of the Village’s financial operations, and to the auditors when testing for compliance with internal policies.

### **Internal Controls – Segregation of Duties**

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Village’s assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government’s unique circumstances.

As is the case with many organizations of similar size, the Village lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

# **Village of Three Oaks**

## **Comments and Recommendations**

**For the Year Ended February 29, 2004**

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Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Village's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Village's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

### **Assistance Provided During the Audit**

Despite the difficulties encountered in connection with this year's audit, we would like to extend our sincere thanks to the Village's management for the courteous and professional manner in which they dealt with our audit team. We understand that most of these problems predate existing staff and that the audit was a challenging process for all involved. Management's support and patience throughout our testing was greatly appreciated.

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